

## **PALOUSE COULEE CITY RAILROAD ANALYSIS**

### **BRIEFING PAPER**

Prepared for the November 2003 Transportation Commission Meeting

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### **PURPOSE:**

To inform the Commission about the review processes being carried out for the potential acquisition of the right of way of the Palouse River & Coulee City Railroad (PCC). The freight rail program's enabling RCW 47.76 requires a formal determination of benefits and costs for each potential freight rail assistance project. WSDOT also determines whether providing assistance is a reasonable business decision. This paper summarizes research results to date and next steps for acquiring and rehabilitating the railroad using the \$33.5 million authorized in the 10-year funding package.

### **ACTION/OUTCOME:**

Information only.

### **BACKGROUND:**

The PCC short line railroad provides the majority of local rail service in Eastern Washington. It is the state's largest short line and is the second longest rail line in the state at 375 miles. The line hauls 20 per cent of the grain grown in Washington, serves industries employing more than 1200 people, and hauls cargoes worth \$160 million each year. Two of the three Washington Grain Trains operate on the PCC.

The PCC, owned by WATCO, was formed in the 1990s from Eastern Washington branch lines about to be abandoned by the BNSF and Union Pacific Railroads. The infrastructure had been under-maintained for some years, building up a considerable maintenance backlog.

While operating expenses are covered, the PCC's revenue cannot fully support the track maintenance load. Some lines are approaching a state of deterioration that will require major rehabilitation work. Since WATCO already has a large debt burden from its purchase of the line and earlier track repair work, the company is unwilling to make the necessary additional large investments on its own. WATCO notified WSDOT and other public officials that it would have to begin formal abandonment of certain lines without public assistance.

Concerned about the potential loss of a valuable transportation asset whose ongoing operation provides considerable public benefits, the 2003 legislature appropriated funding for a series of projects to acquire the PCC's right of way (tracks plus immediately underlying land) and rehabilitate the tracks.

## **DISCUSSION:**

RCW 47.76 provides that rail lines that provide benefits to the state and local jurisdictions, such as avoided highway costs and economic development potential, should be assisted. The statute requires certain formal reviews and benefit-cost determinations be completed before freight rail assistance funds can be expended. WSDOT will also determine if purchase of the railroad is a sound business decision.

WSDOT's review process covers four major areas:

1. **Purchase Value:** Consultants have estimated a range of values for the actual purchase value of the railroad, which is called the net liquidation value (NLV). Consultants followed the guidelines established by the federal Surface Transportation Board.
2. **Operational and financial performance:**
  - The PCC has a steady traffic base made up mostly of agricultural products
  - The PCC covers its operating costs and makes a small annual operating profit, except in severe drought years.
  - The profit is possible only because track maintenance is funded at less than the industry-recommended level.
  - More traffic could help the PCC, but the current competitive environment will constrain any gains.
  - PCC operations seem very cost effective compared to industry standards.
3. **Engineering Studies:** How much track rehab work needs to be done?
  - Most of the PCC's current track is good for only 10 mph operations, and some is becoming marginal for even that low speed.
  - The bridges are sound, but many will need to be replaced within 20 years.
  - All track needs to be brought up to at least federal Class 1 level (10 mph)
  - Key stretches must be brought up to Class 2 (25 mph) to reduce operating costs and provide better customer service.
  - The funds appropriated by the legislature plus WATCO's internal maintenance funds could accomplish the track rehabilitation that is most needed.
4. **Public benefits:**
  - The PCC directly saves Washington shippers at least \$2.3 million per year, mainly due to transportation savings in the range of 5-6 cents per bushel on all grain shipments. Rail competition also helps keep down competing truck and barge rates.
  - The PCC is an important element of current and future economic development in Eastern Washington. A number of companies have indicated they will build new

job-producing facilities if the railroad's future can be assured, which would also help retain the 1200 current jobs at rail-dependent companies.

- If the PCC were to stop operations, as many as 29,000 heavy trucks per year would be put back on state highways, contributing to wear and tear.

#### **Next Steps:**

- WSDOT will complete its review of the research and studies by December 1.
- Using information received to date, the statutory benefit-cost calculation shows that the PCC more than meets the requirements for assistance.
- In November, WSDOT will enter into preliminary discussions with WATCO about the possible elements of a purchase and operating agreement, including performance expectations.
- Assuming that the completed research validates the preliminary results and that an operating agreement can be successfully structured, WSDOT expects that a purchase agreement for the acquisition of the PCC's right of way could be concluded in the second quarter of 2004.
- WSDOT is developing a communications plan for outreach to shippers, businesses, local jurisdictions and ports to share information gathered to-date discuss the level of local support for the acquisition

#### **RECOMMENDATION:**

N/A.

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